

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HUDSONVILLE	County OTTAWA
Fiscal Year End JUNE 30, 2006	Opinion Date SEPTEMBER 8, 2006	Date Audit Report Submitted to State DECEMBER 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

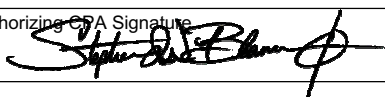
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	NONE REPORTED		
Other (Describe)	<input type="checkbox"/>	NONE		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

CITY OF HUDSONVILLE
HUDSONVILLE, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

CITY OF HUDSONVILLE

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 8, 2006

Honorable Mayor and
Members of the City Commission
City of Hudsonville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudsonville, Michigan (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Hudsonville, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Hudsonville, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of the City of Hudsonville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudsonville's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Hudsonville's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the City of Hudsonville, we offer readers of the City of Hudsonville's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The City's commitment to public safety was supported by 30% of general fund expenditures.
- The public safety department operations were contracted to the Ottawa County Sheriff's department resulting in limiting the future liability for pension benefits.
- Eliminated Information Services manager, position outsourced to contractor.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Hudsonville's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Hudsonville that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements include not only the City of Hudsonville itself (known as the *primary government*), but also a legally separate Tax Increment Finance Authority, Local District Finance Authority, and Downtown Development Authority for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Hudsonville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and Public Improvement Fund which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16-20 of this report.

Proprietary funds. The City of Hudsonville maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Hudsonville uses enterprise funds to account for its sewer and water operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses internal service funds to account for its fleet of vehicles, compensated absences, fire equipment and insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operation, of which both are considered to be major funds of the City of Hudsonville.

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statement can be found on page 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-37 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 38-52 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hudsonville, assets exceeded liabilities by \$12,691,268 at the close of the most recent fiscal year.

A portion of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Hudsonville Net Assets

	Governmental activities		Business-type activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 3,068,400	\$ 2,876,883	\$2,105,133	\$2,232,234	\$ 5,172,833	\$ 5,109,117
Capital assets	8,130,161	8,006,503	5,724,243	5,552,840	13,855,104	13,559,343
Total assets	11,198,561	10,883,386	7,829,376	7,785,074	19,027,937	18,668,460
Long-term liabilities outstanding	4,917,741	4,873,308	952,890	960,000	5,870,631	5,833,308
Other liabilities	222,964	636,485	245,156	147,067	468,120	783,552
Total liabilities	5,140,705	5,509,793	1,198,046	1,107,067	6,336,669	6,616,860
Net assets:						
Invested in capital assets, net						
of related debt	3,257,553	2,795,087	4,771,353	4,545,497	8,028,906	7,340,584
Restricted	1,007,370	91,394	-	-	1,007,370	91,394
Unrestricted	1,792,933	2,487,112	1,859,977	2,132,510	3,652,910	4,619,622
Total net assets	\$ 6,057,856	\$ 5,373,593	\$6,631,330	\$6,978,007	\$12,689,186	\$12,051,600

Net assets of the City increased by \$637,586. The governmental activities increase in net assets of \$684,263 is primarily the result of developers making required infrastructure contributions to the City.

City of Hudsonville Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:						
Program revenue:						
Charges for services	\$ 331,953	\$ 764,427	\$1,401,049	\$1,752,323	\$1,733,002	\$2,516,750
Operating grants and contributions	523,549	35,161	-	-	523,547	35,161
Capital grants and contributions	279	190,407	-	-	279	190,407
	855,781	989,995	1,401,049	1,752,323	2,256,830	2,742,318
General revenue:						
Property taxes	2,466,803	2,390,639	-	-	2,466,803	2,390,639
Other governmental sources	604,090	619,243	-	-	604,090	619,243
Unrestricted investment earnings	128,886	92,812	59,205	43,027	188,091	135,839
Miscellaneous revenues	54,112	150	6,933	107,137	61,045	107,287
Total revenue	\$4,109,672	\$4,092,839	\$1,467,187	\$1,902,487	\$5,576,859	\$5,995,326

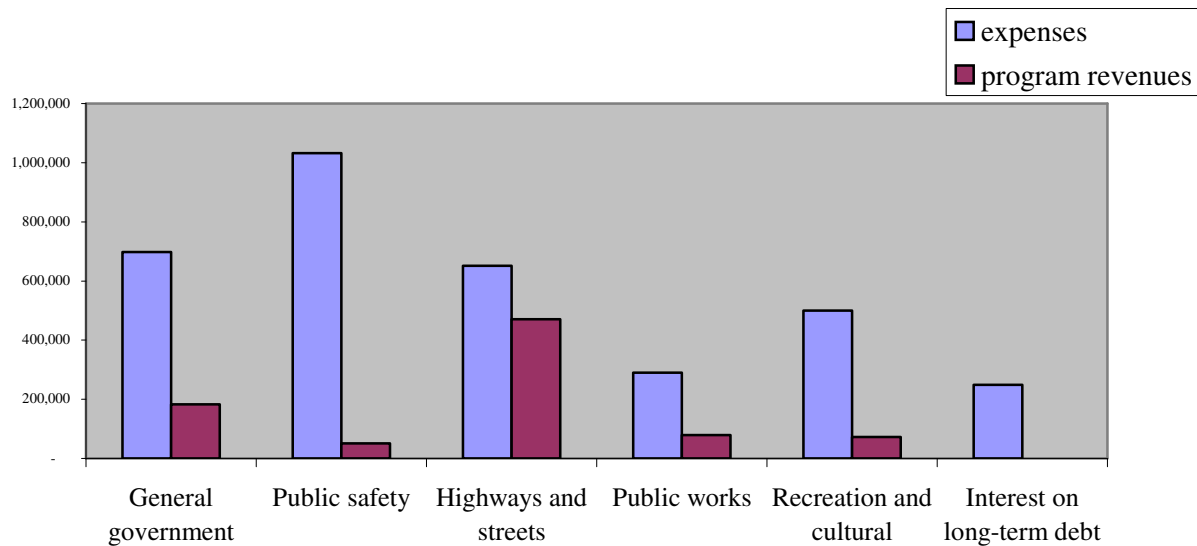
City of Hudsonville Changes in Net Assets (Continued)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Expenses:						
General government	\$ 698,351	\$ 520,460	\$ -	\$ -	\$ 698,351	\$ 520,460
Public safety	1,032,331	804,620	-	-	1,032,331	804,620
Public works	290,319	292,301	-	-	290,319	292,301
Highway and streets	651,967	616,241	-	-	651,967	616,241
Recreation and cultural	500,300	492,027	-	-	500,300	492,027
Interest on long-term debt	249,141	272,689	-	-	249,141	272,689
Sewer	-	-	820,917	703,674	820,917	703,674
Water	-	-	692,947	661,261	692,947	661,261
Total expenses	<u>3,425,409</u>	<u>2,998,338</u>	<u>1,513,864</u>	<u>1,364,935</u>	<u>4,939,273</u>	<u>4,363,273</u>
Increase (decrease) in net assets	684,263	1,094,491	(46,677)	537,552	637,586	1,632,043
Net assets - beginning of year	<u>5,373,593</u>	<u>4,279,102</u>	<u>6,978,007</u>	<u>6,140,455</u>	<u>12,051,600</u>	<u>10,419,557</u>
Net assets - end of year	<u>\$6,057,856</u>	<u>\$5,373,593</u>	<u>\$6,631,330</u>	<u>\$6,978,007</u>	<u>\$12,689,186</u>	<u>\$12,051,600</u>

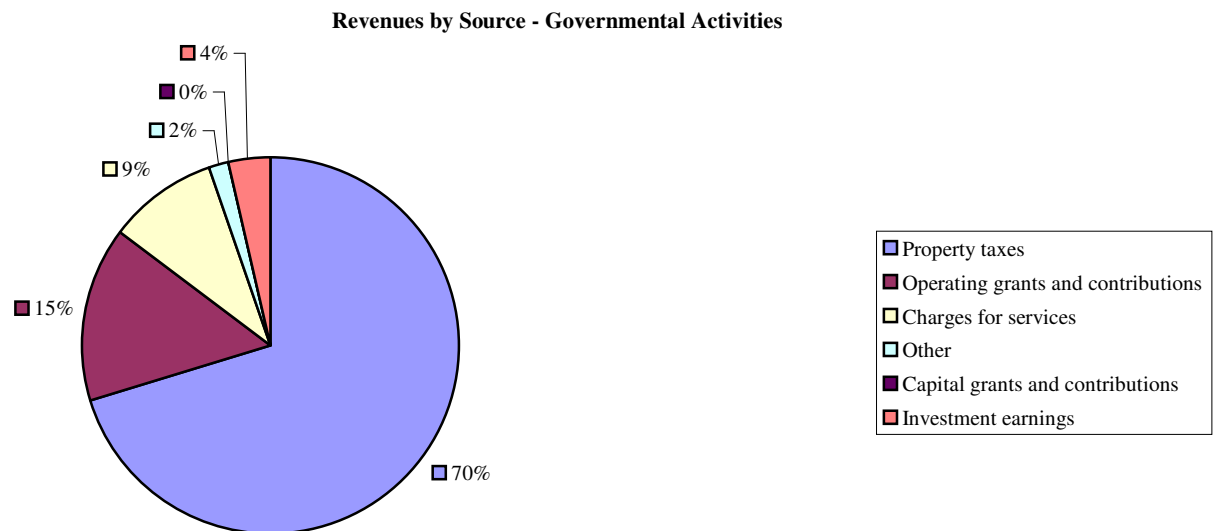
Governmental activities

During the year, the City continued its emphasis in public safety by investing \$1,032,331 or 30% of governmental activities expenses. Recreation and cultural was \$500,300 or 15% of governmental activities expenses while general government, public works and interest on long-term debt made up the remaining 55% of governmental activities expenses.

Expenses and Program Revenues - Governmental Activities



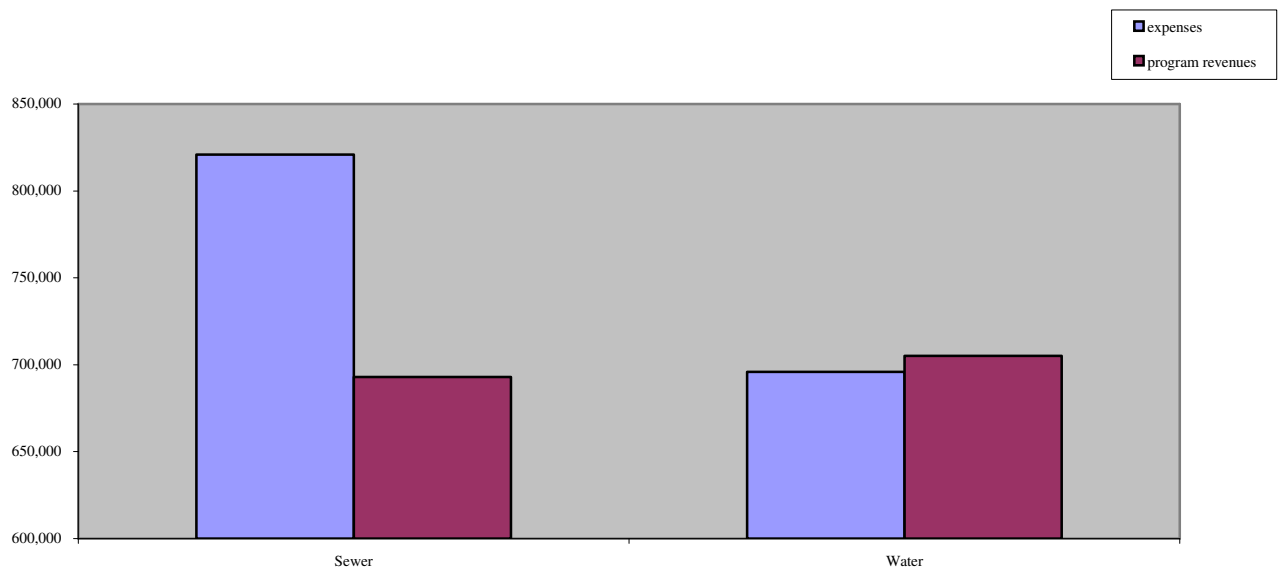
Revenues by Source - Governmental Activities



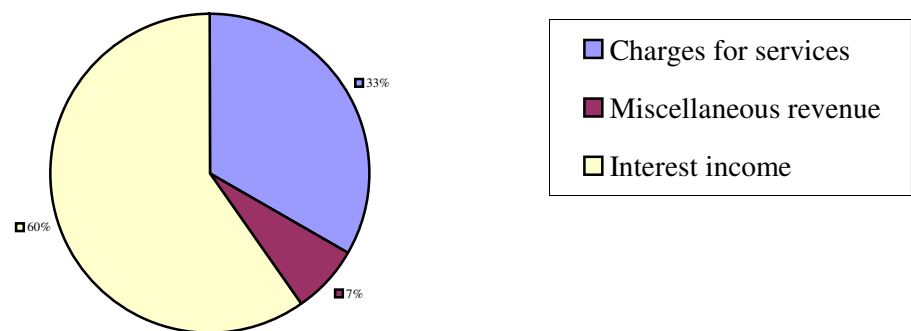
Business-type activities. Business-type activities decreased the City's net assets by \$46,677. By comparison, business-type activities reported an increase in net assets the previous fiscal year of approximately \$537,532. Key elements of this decrease are as follows:

- Charges for services for business-type activities decreased by 19%, or roughly \$325,000 compared to the prior year. This is primarily due to significant non-recurring developer hookup fees for a project outside of City limits that took place in 2005.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,066,967, an increase of \$267,472, in comparison with the prior year. Approximately 99% of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to generate income for library purposes (\$18,569).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$821,821. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 24 percent of total general fund expenditures and transfers.

The fund balance of the City's general fund decreased by \$334,366 during the current fiscal year. This is primarily attributable to transfers to the debt service funds for debt payments.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$912,945 and \$947,032, respectively. The sewer fund had a decrease in net assets for the year of \$(92,817) and the water fund had an increase of \$46,140. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The budget amount for operating transfers out was increased to fund capital outlay in the public improvement capital outlay fund and other nonmajor funds. All other differences between the original and final amended budgets for expenditures were relatively minor.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to \$13,855,104 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was 2.2 percent (a 1.5 percent increase for governmental activities and a 3.1 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- **\$400,000 of Water main project expenditures**
- **Painted water tower**
- **Volleyball area in park**
- **Paving and street resurfacing in the amount of approximately \$101,000.**

City of Hudsonville Capital Assets
(net of depreciation)

	Governmental		Business-type		Total	
	<u>activities</u>		<u>activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$3,059,582	\$3,059,582	\$ 39,936	\$ 39,936	\$ 3,099,518	\$ 3,099,518
Land improvements	759,352	692,158	-	-	759,352	692,158
Buildings and system improvements	2,939,246	2,962,607	5,684,307	5,512,904	8,623,553	8,475,511
Machinery and equipment	1,326,084	1,240,495	-	-	1,326,084	1,240,495
Office furniture and equipment	46,597	51,661	-	-	46,597	51,661
Total	<u>\$8,130,861</u>	<u>\$8,006,503</u>	<u>\$5,724,243</u>	<u>\$5,552,840</u>	<u>\$13,855,104</u>	<u>\$13,559,343</u>

Additional information on the City of Hudsonville capital assets can be found in Note 4 on pages 34 and 35 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$5,870,631. Of this amount, \$952,890 was debt of business activities and \$4,917,741 was debt of governmental activities.

General Obligation and Revenue Bonds

	Governmental		Business-type		Total	
	<u>activities</u>		<u>activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Accrued employee benefits	\$ 44,433	\$ 81,920	\$ -	\$ -	\$ 44,433	\$ 81,920
Bonds and notes payable	4,873,308	5,211,416	952,890	1,007,343	5,826,198	6,218,759
Total	<u>\$4,917,741</u>	<u>\$5,293,336</u>	<u>\$952,890</u>	<u>\$1,007,343</u>	<u>\$5,870,631</u>	<u>\$6,300,679</u>

The City's total debt decreased by \$431,152 (7.3 percent) during the current fiscal year.

The City is currently not rated for general obligation bond issuance.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$20,037,603, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 7 on pages 36 and 37 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- **The City expects a reduction in state revenue sharing. As a result, the City budgeted for the constitutional portion of revenue sharing and only a small part of the non-constitutional for 2006-2007.**
- **Increases in wages of approximately 2%.**
- **Rate increases in the water and sewer charges of 3%.**
- **Contracted out for lawn service reducing costs**
- **Eliminated need for part time DPW employees**
- **Outsourced rental inspection process**
- **Started a business registration**
- **Started charging back for planning services such as attorney and engineering fees to applicants**

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 3275 Central Boulevard, Hudsonville, MI 49426-1450.

CITY OF HUDSONVILLE

Statement of Net Assets

June 30, 2006

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	Tax Increment Finance Authority	Local Development Finance Authority	Downtown Development Authority
Assets						
Cash and pooled investments	\$ 2,622,275	\$ 1,358,672	\$ 3,980,947	\$ 1,093,509	\$ 121,898	\$ 31,980
Receivables:						
Accounts	53,114	415,263	468,377	-	-	-
Special assessments	63,001	-	63,001	-	-	-
Interest	31,618	17,482	49,100	11,491	1,262	309
Due from other governmental units	276,723	-	276,723	-	-	-
Deposits	2,400	-	2,400	-	-	-
Restricted cash and pooled investments	18,569	296,471	315,040	-	-	-
Inventory	-	17,245	17,245	-	-	-
Land	3,059,582	39,936	3,099,518	-	-	-
Property, plant and equipment, net of accumulated depreciation	5,071,279	5,684,307	10,755,586	-	-	-
Total assets	11,198,561	7,829,376	19,027,937	1,105,000	123,160	32,289
Liabilities						
Accounts payable	104,407	230,454	334,861	185,811	37,913	577
Accrued wages payable	59,511	5,170	64,681	-	-	-
Accrued interest	59,046	9,532	68,578	16,124	2,346	-
Noncurrent liabilities:						
Unamortized discount on revenue bonds	-	(7,110)	(7,110)	-	-	-
Accrued employee benefits	44,433	-	44,433	-	-	-
Due within one year	365,812	60,000	425,812	185,000	-	-
Due in more than one year	4,507,496	900,000	5,407,496	1,305,000	-	-
Total liabilities	5,140,705	1,198,046	6,338,751	1,691,935	40,259	577
Net assets (deficit)						
Invested in capital assets, net of related debt	3,257,553	4,771,353	8,028,906	-	-	-
Restricted for:						
Library endowment	18,569	-	18,569	-	-	-
Debt service	61,637	-	61,637	-	-	-
Capital projects	927,164	-	927,164	-	-	-
Unrestricted	1,792,933	1,859,977	3,652,910	(586,935)	82,901	31,712
Total net assets (deficit)	\$ 6,057,856	\$ 6,631,330	\$ 12,689,186	\$ (586,935)	\$ 82,901	\$ 31,712

CITY OF HUDSONVILLE

Statement of Activities

For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	
Primary government					
Governmental activities:					
General government	\$ 698,351	\$ 182,366	\$ -	\$ -	\$ (515,985)
Public safety	1,032,331	3,336	47,250	-	(981,745)
Highways and streets	651,967	5,870	464,851	279	(180,967)
Public works	290,319	77,937	954	-	(211,428)
Recreation and cultural	503,300	62,444	10,494	-	(430,362)
Interest on long-term debt	249,141	-	-	-	(249,141)
Total governmental activities	3,425,409	331,953	523,549	279	(2,569,628)
Business-type activities:					
Sewer	820,917	695,965	-	-	(124,952)
Water	692,947	705,084	-	-	12,137
Total business-type activities	1,513,864	1,401,049	-	-	(112,815)
Total primary government	\$ 4,939,273	\$ 1,733,002	\$ 523,549	\$ 279	\$ (2,682,443)
Component units					
Tax Increment Finance Authority	\$ 154,909	\$ -	\$ -	\$ -	\$ (154,909)
Local Development Finance Authority	3,080	-	-	-	(3,080)
Downtown Development Authority	3,885	-	-	-	(3,885)
Total component units	\$ 161,874	\$ -	\$ -	\$ -	\$ (161,874)

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE

Statement of Activities (Continued)

For the Year Ended June 30, 2006

Functions/Programs	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	Tax Increment Finance Authority	Local Development Finance Authority	Downtown Development Authority
Changes in net assets						
Net (expense) revenue	\$ (2,569,628)	\$ (112,815)	\$ (2,682,443)	\$ (154,909)	\$ (3,080)	\$ (3,885)
General revenues:						
Property taxes	2,466,803	-	2,466,803	485,457	191,093	9,987
Other governmental sources	604,090	-	604,090	-	-	-
Unrestricted investment earnings	128,886	59,205	188,091	47,690	4,158	1,119
Miscellaneous revenues	54,112	6,933	61,045	-	-	2,676
Total general revenues	3,253,891	66,138	3,320,029	533,147	195,251	13,782
Change in net assets	684,263	(46,677)	637,586	378,238	192,171	9,897
Net assets (deficit), beginning of year	5,373,593	6,678,007	12,051,600	(965,173)	(109,270)	21,815
Net assets (deficit), end of year	\$ 6,057,856	\$ 6,631,330	\$ 12,689,186	\$ (586,935)	\$ 82,901	\$ 31,712

(Concluded)

CITY OF HUDSONVILLE

Balance Sheet Governmental Funds

June 30, 2006

	General	Public Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 693,864	\$ 823,208	\$ 336,123	\$ 1,853,195
Restricted cash and pooled investments	-	-	18,569	18,569
Due from other governments	196,680	-	80,043	276,723
Accounts receivable (net of allowance for uncollectibles)	12,420	-	40,694	53,114
Interest receivable	10,958	9,151	3,385	23,494
Special assessments receivable	-	-	63,001	63,001
 Total assets	 \$ 913,922	 \$ 832,359	 \$ 541,815	 \$ 2,288,096
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 43,654	\$ 1,355	\$ 28,141	\$ 73,150
Accrued wages	48,447	-	10,026	58,473
Due to other funds	-	-	26,502	26,502
Deferred revenue	-	-	63,004	63,004
 Total liabilities	 92,101	 1,355	 127,673	 221,129
Fund balances:				
Reserved for library endowment	-	-	18,569	18,569
Unreserved:				
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	256,345	256,345
Debt service funds	-	-	61,637	61,637
Capital projects funds	-	-	96,160	96,160
Undesignated	821,821	831,004	-	1,652,825
 Total fund balances	 821,821	 831,004	 414,142	 2,066,967
 Total liabilities and fund equity	 \$ 913,922	 \$ 832,359	 \$ 541,815	 \$ 2,288,096

CITY OF HUDSONVILLE

Reconciliation of Fund Balances on the Balance Sheet For Governmental Funds To the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

Fund balances - total governmental funds	\$ 2,066,967
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds.

Add - land	3,059,582
Add - capital assets, net of accumulated depreciation	5,071,279

Certain assets, such as special assessments receivable are not due and receivable in the current
period and therefore are offset with deferred revenue in the fund statements.

Add - deferred special assessments receivable	63,004
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Internal service funds are used by management to charge the costs of certain activities, such as
insurance and other centralized costs, to individual funds. The assets and liabilities of internal
service funds are included in governmental activities

Add - net assets of governmental activities accounted for in internal service funds	1,876,928
Subtract - capital assets accounted for in internal service funds, net of accumulated depreciation	(1,103,117)

Certain liabilities, such as bond payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct - bonds payable	(4,873,308)
Deduct - accrued interest	(59,046)
Deduct - compensated absences	(44,433)

Net assets of governmental activities	<u><u>\$ 6,057,856</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2006

	General	Public Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes and assessments	\$ 2,117,640	\$ -	\$ 361,582	\$ 2,479,222
Licenses and permits	64,275	-	-	64,275
Intergovernmental	604,090	-	523,827	1,127,917
Charges for services	96,720	-	62,444	159,164
Rentals	9,870	-	5,870	15,740
Interest	68,964	18,169	16,346	103,479
Fines and forfeitures	27,735	-	-	27,735
Miscellaneous	42,915	-	63,818	106,733
	<hr/>			
Total revenues	3,032,209	18,169	1,033,887	4,084,265
	<hr/>			
Expenditures				
Current:				
General government	893,042	-	-	893,042
Public safety	898,084	-	63,762	961,846
Highways and streets	211,370	-	472,306	683,676
Culture and recreation	245,811	-	285,556	531,367
Debt service:				
Principal	-	-	338,108	338,108
Interest and fiscal charges	-	-	252,675	252,675
Capital outlay	-	188,274	18,905	207,179
	<hr/>			
Total expenditures	2,248,307	188,274	1,431,312	3,867,893
	<hr/>			
Revenues over (under) expenditures	783,902	(170,105)	(397,425)	216,372
	<hr/>			
Other financing sources (uses)				
Proceeds from sale of capital assets	51,100	-	-	51,100
Transfers in	-	767,520	716,715	1,484,235
Transfers (out)	(1,169,368)	(15,000)	(299,867)	(1,484,235)
	<hr/>			
Total other financing sources (uses)	(1,118,268)	752,520	416,848	51,100
	<hr/>			
Net change in fund balances	(334,366)	582,415	19,423	267,472
	<hr/>			
Fund balances - beginning of year	1,156,187	248,589	394,719	1,799,495
	<hr/>			
Fund balances - end of year	\$ 821,821	\$ 831,004	\$ 414,142	\$ 2,066,967
	<hr/>			

CITY OF HUDSONVILLE

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds To the Statement of Activities

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 267,472
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	284,044
Deduct - depreciation expense	(181,540)

Bond proceeds provide current financial resources to governmental funds in the period
issued, but issuing bonds increases long-term liabilities in the statement of net assets.
Repayment of bond principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term debt	338,108
Deduct - change in deferred special assessments receivable	(8,889)

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in interest expense for accrued interest	3,534
Add - decrease in the accrual for compensated absences	37,497

Internal service funds are used by management to charge the costs of certain services to
individual governmental funds. The net revenue (expense) of those funds is reported with
governmental activities.

Add - loss from governmental activities in internal service fund	<u>(55,963)</u>
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Change in net assets of governmental activities	<u><u>\$ 684,263</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE

**Statement of Revenues, Expenditures
and Changes in Fund Balances
Budget and Actual
General Fund**

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 1,920,115	\$ 2,080,956	\$ 2,117,640	\$ 36,684
Licenses and permits	64,710	65,260	64,275	(985)
Intergovernmental	600,000	595,000	604,090	9,090
Charges for services	85,600	91,300	96,720	5,420
Rentals	-	11,000	9,870	(1,130)
Interest	25,000	70,500	68,964	(1,536)
Fines and forfeits	20,100	18,700	27,735	9,035
Miscellaneous	6,600	21,100	42,915	21,815
Total revenues	2,722,125	2,953,816	3,032,209	78,393
Expenditures				
General government:				
Legislative	30,884	33,961	27,201	(6,760)
Executive	50,431	72,721	76,323	3,602
Elections	11,334	7,800	3,823	(3,977)
Assessor	69,584	99,803	115,277	15,474
Attorney	31,000	30,000	44,508	14,508
Clerk	59,551	70,573	62,447	(8,126)
Finance and accounting	125,691	127,456	97,230	(30,226)
City building and grounds	153,054	186,836	175,696	(11,140)
General administration	40,332	42,375	36,099	(6,276)
Information services	80,754	93,203	98,495	5,292
Planning commissions	111,681	91,875	84,384	(7,491)
Other functions	13,680	20,045	9,014	(11,031)
Miscellaneous	190,500	189,950	62,545	(127,405)
Total general government	968,476	1,066,598	893,042	(173,556)
Public safety:				
Police	686,365	692,745	745,254	52,509
Fire	152,815	147,960	133,524	(14,436)
Code enforcement	29,018	33,256	19,306	(13,950)
Total public safety	868,198	873,961	898,084	24,123
Highways and streets	162,219	173,175	211,370	38,195
Culture and recreation	229,772	273,216	245,811	(27,405)
Total expenditures	2,354,026	2,498,870	2,248,307	(138,643)
Revenues over (under) expenditures	368,099	454,946	783,902	328,956
Other financing sources (uses)				
Proceeds from sale of capital assets	-	51,100	51,100	-
Transfers (out)	(479,298)	(1,169,368)	(1,169,368)	-
Total other financing sources (uses)	(479,298)	(1,118,268)	(1,118,268)	-
Net change in fund balances	(111,199)	(663,322)	(334,366)	328,956
Fund balances - beginning of year	1,156,187	1,156,187	1,156,187	-
Fund balances - end of year	\$ 1,044,988	\$ 492,865	\$ 821,821	\$ 328,956

The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE

Proprietary Funds Statement of Net Assets

June 30, 2006

	Business-Type Activities			Governmental Activities
	Sewer Disposal	Water Works	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and pooled investments	\$ 723,134	\$ 635,538	\$ 1,358,672	\$ 769,080
Restricted cash and pooled investments	19,056	277,415	296,471	-
Accounts receivable	284,049	131,214	415,263	-
Due from other funds	-	-	-	26,502
Interest receivable	7,308	10,174	17,482	8,124
Deposits	-	-	-	2,400
Inventory	5,598	11,647	17,245	-
Total current assets	1,039,145	1,065,988	2,105,133	806,106
Noncurrent assets:				
Sanitary sewer system	5,642,316	-	5,642,316	-
Water system	-	4,719,751	4,719,751	-
Other property and equipment	-	-	-	1,879,898
Less: accumulated depreciation	2,701,723	1,936,101	4,637,824	776,781
Total noncurrent assets	2,940,593	2,783,650	5,724,243	1,103,117
Total assets	3,979,738	3,849,638	7,829,376	1,909,223
Liabilities and net assets				
Current liabilities:				
Accounts payable	118,963	111,491	230,454	31,257
Accrued interest	5,362	4,170	9,532	-
Accrued wages	1,875	3,295	5,170	1,038
Current portion of bonds payable	35,000	25,000	60,000	-
Total current liabilities	161,200	143,956	305,156	32,295
Noncurrent liabilities:				
Bonds payable	404,828	488,062	892,890	-
Total liabilities	566,028	632,018	1,198,046	32,295
Net assets				
Invested in capital assets, net of related debt	2,500,765	2,270,588	4,771,353	1,103,117
Unrestricted	912,945	947,032	1,859,977	773,811
Total net assets	\$ 3,413,710	\$ 3,217,620	\$ 6,631,330	\$ 1,876,928

CITY OF HUDSONVILLE

Proprietary Funds Statement of Revenues, Expenses, And Changes in Net Assets

For the Year Ended June 30, 2006

	Business-Type Activities			Governmental Activities
	Sewer Disposal	Water Works	Total	Internal Service Funds
Operating revenues				
Fees	\$ 9,790	\$ 63,675	\$ 73,465	\$ -
Charges for services	686,175	641,409	1,327,584	968,837
Miscellaneous	5,840	1,093	6,933	-
Total operating revenues	701,805	706,177	1,407,982	968,837
Operating expenses				
Disposal costs	380,489	-	380,489	-
Water purchases	-	288,347	288,347	-
Personnel services	82,832	142,187	225,019	527,513
Professional and contractual services	129,230	21,652	150,882	264,299
Supplies and materials	1,719	5,315	7,034	40,482
Utilities	14,017	9,668	23,685	-
Repairs and maintenance	42,984	20,672	63,656	28,924
Capital outlay	-	30,299	30,299	-
Equipment rental	10,814	18,516	29,330	-
Depreciation	120,679	90,639	211,318	110,276
Miscellaneous	17,685	46,064	63,749	12,794
Total operating expenses	800,449	673,359	1,473,808	984,288
Operating income (loss)	(98,644)	32,818	(65,826)	(15,451)
Nonoperating revenues (expenses)				
Loss on sale of capital assets	-	-	-	(65,919)
Interest income	26,295	32,910	59,205	25,407
Interest expense	(20,468)	(19,588)	(40,056)	-
Total nonoperating revenues (expenses)	5,827	13,322	19,149	(40,512)
Change in net assets	(92,817)	46,140	(46,677)	(55,963)
Net assets - beginning of year	3,506,527	3,171,480	6,678,007	1,932,891
Net assets - end of year	\$ 3,413,710	\$ 3,217,620	\$ 6,631,330	\$ 1,876,928

The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE

Proprietary Funds Statement of Cash Flows

For the Year Ended June 30, 2006

	Business-Type Activities			Governmental Activities
	Sewer Disposal	Water Works	Total	Internal Service Funds
Cash flows from operating activities				
Cash received from customers	\$ 906,208	\$ 762,837	\$ 1,669,045	\$ -
Receipts from interfund services	-	-	-	968,837
Payments to vendors	(506,972)	(370,083)	(877,055)	(353,831)
Payments to employees	(82,711)	(143,200)	(225,911)	(527,513)
Net cash provided by (used in) operating activities	316,525	249,554	566,079	87,493
Cash flows from capital and related financing activities				
Acquisitions of capital assets	(166,707)	(216,015)	(382,722)	(186,160)
Principal paid on long-term debt	(30,000)	(25,000)	(55,000)	-
Interest paid on long-term debt	(20,468)	(21,792)	(42,260)	-
Net cash provided by (used in) capital and related financing activities	(217,175)	(262,807)	(479,982)	(186,160)
Cash flows from investing activities				
Interest received	26,295	32,910	59,205	25,426
Net increase in cash and pooled investments	125,645	19,657	145,302	(73,241)
Cash and pooled investments - beginning of year	616,545	893,296	1,509,841	842,321
Cash and pooled investments - end of year	\$ 742,190	\$ 912,953	\$ 1,655,143	\$ 769,080
Cash and pooled investments are classified as follows on the statement of net assets:				
Cash and pooled investments	\$ 723,134	\$ 635,538	\$ 1,358,672	\$ 769,080
Restricted cash and pooled investments	19,056	277,415	296,471	-
	\$ 742,190	\$ 912,953	\$ 1,655,143	\$ 769,080
Cash flows from operating activities				
Operating income (loss)	\$ (98,644)	\$ 32,818	\$ (65,826)	\$ (15,451)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	120,679	90,639	211,318	110,276
Amortization of bond discount (premium)	-	(547)	(547)	-
Changes in operating assets and liabilities which provided (used) cash:				
Receivables	204,403	56,660	261,063	-
Inventory	4,240	5,154	9,394	-
Due to other funds	-	-	-	-
Accounts payable	85,726	65,843	151,569	(7,244)
Other accrued liabilities	121	(1,013)	(892)	(88)
Net cash provided by (used in) operating activities	\$ 316,525	\$ 249,554	\$ 566,079	\$ 87,493

The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2006

Assets

Cash and pooled investments	<u>\$ 178,308</u>
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Liabilities

Accounts payable	<u>\$ 178,308</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hudsonville (the “City”) was incorporated November 5, 1957, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Commission-Manager form of government and provides the following services: Public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

Blended Component Unit

The Hudsonville Building Authority – The members of the governing board of the Building Authority are appointed by the City Commission. The City has significant influence over operations of the building authority and also is accountable for its fiscal matters.

Discretely Presented Component Units

Tax Increment Finance Authority – The members of the governing board of the Tax Increment Finance Authority are appointed by the City Commission. The budgets and expenditures of the Tax Increment Finance Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Tax Increment Finance Authority.

Local Development Finance Authority – The members of the governing board of the Local Development Finance Authority are appointed by the City Commission. The budgets and expenditures of the Local Development Finance Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Local Development Finance Authority.

Downtown Development Authority – The members of the governing board of the Downtown Development Authority are appointed by the City Commission. The budgets and expenditures of the Downtown Development Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Complete financial statements for the component units are not separately prepared.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Public Improvement Fund* is a capital projects fund used to account for capital outlay expenditures of the City.

The City reports the following major proprietary funds:

Sewer Disposal Fund – This fund is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Water Works Fund – The cost of providing water services to City residents is accounted for by this fund. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenue from specific revenue (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Projects Funds account for the accumulation and disbursement of resources for the construction of City capital projects.

Internal Service Funds are used to account for financing of goods or services provided by the City to other departments or funds to other governmental units on a cost reimbursement basis.

Agency Funds are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Commission.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Commission.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Cash and Pooled Investments

For purposes of the statement of cash flows, the City considers all assets held in highly liquid investments with an original maturity of three months or less to be cash and temporary investments.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Special Assessments

Special assessments are recorded as revenue when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue. Special assessments are billed annually.

Pensions

The provision for pension cost is recorded on an annual basis and the City's policy is to fund pension costs as they accrue.

Inventory

Inventory is valued at cost on the first-in/first-out (FIFO) method. Inventory is recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. The capitalization threshold is \$5,000. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	50
Machinery and equipment	3 - 35
Water/sewer system	5 - 50

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Property Taxes

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 15, and winter taxes are levied on December 1 and are due without penalty on or before February 14. The City bills and collects its own property taxes for general governmental services, road, and debt retirement. Additionally, the City collects taxes for Ottawa County and various school districts. Collections of property taxes and remittances to the appropriate authorities are accounted for in the Trust and Agency Fund.

Local Development Finance Authority Notes Payable

Notes payable consist of an amount due to the developer of the Local Development Finance Authority (LFDA) district. This amount is paid with tax captures within the LDFA district. The notes payable include interest at 7% and are recorded in the long-term liabilities of the Local Development Finance Authority.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences

Under terms of City policies, employees are granted sick leave at the rate of .83 days per month. Unused sick leave may accumulate up to 80 hours (depending on their bargaining unit). Employees are granted vacation time in varying amounts based on length of service. Employees must use their vacation each year.

Compensated absences are recorded on the statement of net assets.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted on the activity level in the General Fund and the function level in other funds.

During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund -			
Executive	\$ 72,721	\$ 76,323	\$ (3,602)
Assessor	99,803	115,277	(15,474)
Attorney	30,000	44,508	(14,508)
Information services	93,203	98,495	(5,292)
Police	692,745	745,254	(52,509)
Highways and streets	173,175	210,327	(37,152)

3. DEFICIT FUND EQUITY

At June 30, 2006, the City had a deficit fund balance in the following fund:

Primary Government:	
Sidewalk Capital Projects	\$ (1,122)

Management plans to eliminate the deficit fund balance through the recognition of revenues in subsequent years.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	Primary Government	Component Units	Fiduciary Funds	Total
Cash and temporary investments	\$3,980,947	\$1,247,387	\$178,308	\$5,406,642
Restricted cash and pooled investments	<u>315,040</u>	<u>-</u>	<u>-</u>	<u>315,040</u>
Total cash and pooled investments	<u>\$4,295,987</u>	<u>\$1,247,387</u>	<u>\$178,308</u>	<u>\$5,721,682</u>

These deposits are in eight (8) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. Deposits and investments are recorded in City records at fair value. Interest is recorded when earned.

Cash and investments are composed of the following at June 30, 2006:

Checking/Savings Accounts	\$ 428,562
Certificates of Deposit	2,400,000
Investments	2,892,520
Petty Cash	<u>600</u>
Total cash and investments	<u>\$ 5,721,682</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$4,978,229 of the City's bank balance of \$5,778,229 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	Maturity	Fair Value	Rating
Federal National Mortgage Association	9/22/06	\$ 501,125	S&P AAA
Federal National Mortgage Association	7/27/07	250,000	S&P AAA
Federal National Mortgage Association	9/21/07	249,625	S&P AAA
Federal National Mortgage Association	7/02/08	248,028	S&P AAA
Federal Home Loan Bank	9/28/06	200,000	S&P AAA
Federal Home Loan Bank	1/18/07	246,667	S&P AAA
Federal Home Loan Bank	2/16/07	247,075	S&P AAA
Federal Home Loan Bank	6/29/07	250,000	S&P AAA
Federal Home Loan Bank	8/23/07	200,000	S&P AAA
Federal Home Loan Bank	6/30/08	250,000	S&P AAA
Federal Farm Credit Bank	12/22/06	<u>250,000</u>	S&P AAA
		<u>\$ 2,892,520</u>	

The above investments do not include certificates of deposit.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk-Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for the investment custodial risk. At year-end, the City was not exposed to custodial credit risk, as all investments are held in the name of the City.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The City’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Statutory Authority

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

4. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2006, are as follows:

	Balance July 1, 2005	Additions	Dispositions	Balance June 30, 2006
Governmental activities				
Capital assets, not being depreciated:				
Land	\$3,059,582	\$ -	\$ -	\$3,059,582
Capital assets, being depreciated:				
Land improvements	995,098	115,513	-	1,110,611
Buildings	3,864,134	50,359	-	3,914,493
Machinery and equipment	2,180,753	318,540	131,498	2,367,795
Office furniture and equipment	606,191	5,850	-	612,041
Total capital assets, being depreciated	7,646,176	490,262	131,498	8,004,940
Less accumulated depreciation for:				
Land improvements	302,940	48,319	-	351,259
Buildings	901,527	73,720	-	975,247
Machinery and equipment	940,258	158,861	57,408	1,041,711
Office furniture and equipment	554,530	10,914	-	565,444
Total accumulated depreciation	2,699,255	291,814	57,408	2,933,661
Net capital assets, being depreciated	4,946,921	198,444	74,090	5,071,279
Net governmental activities capital assets	\$8,006,503	\$198,444	\$74,090	\$8,130,861

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Dispositions	Balance June 30, 2006
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 39,936	\$ -	\$ -	\$ 39,936
Capital assets being depreciated:				
Water system	4,463,801	216,015	-	4,679,814
Sewer system	5,475,609	166,707	-	5,642,316
Total capital assets, being depreciated	9,939,410	382,722	-	10,322,130
Less accumulated depreciation for:				
Water	1,845,462	90,639		1,936,101
Sewer	2,581,044	120,679	-	2,701,723
Total accumulated depreciation	4,426,506	211,318		4,637,824
Net business-type activities capital assets	\$5,552,840	\$171,404	\$ -	\$5,724,243

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 72,616
Public safety	27,231
Public works	27,231
Recreation and cultural	27,231
Streets	27,231
Depreciation charged to Internal Service Funds	110,276

Total depreciation expense – governmental activities **\$291,816**

Business-type activities

Sewer	\$120,679
Water	90,639

Total depreciation expense – business-type activities **\$211,318**

5. INTERFUND RECEIVABLES AND PAYABLES

	Due From Other Funds	Due to Other Funds
Governmental Funds:		
Sidewalk	\$ -	\$26,502
Internal Service Funds:		
Motor Pool	26,502	-
	<u>\$26,502</u>	<u>\$26,502</u>

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Interfund balances primarily reflect loans made from funds with cash and temporary investments to those funds requiring temporary cash flow needs.

6. INTERFUND TRANSFERS

The composition of transfers for the year ended June 30, 2006, is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ -	\$ 1,049,077
Public Improvement Capital Projects Fund	747,520	
Nonmajor	736,715	435,158
Total	<u>\$1,484,235</u>	<u>\$1,484,235</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Governmental activities					
4.75% - 5.0% Special Assessment Bonds, Series 1999	\$ 120,000	\$ -	\$ (15,000)	\$ 105,000	\$ 15,000
3.95% - 5.0% Public Improvement City GO Bonds, Series 1999	140,000	-	(15,000)	125,000	15,000
4.1% - 5.35% Hudsonville Building Authority Bonds	4,140,000	-	(185,000)	3,955,000	210,000
4.25% - 7.25% Michigan Transportation Bonds, Series 2001	360,000	-	(55,000)	305,000	55,000
3.97% Installment Purchase Contract, 2001	451,416	-	(68,108)	383,308	70,812
Subtotal – installment debt	5,211,416	-	(338,108)	4,873,308	365,812
Accrued Employee Benefits	81,930	-	(37,497)	44,433	-
Total governmental activities	<u>\$5,293,346</u>	<u>\$ -</u>	<u>\$(375,605)</u>	<u>\$4,917,741</u>	<u>\$365,812</u>

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due One Year</u>
Business-type activities					
4.0% - 5.2% Water Supply and Sewage Disposal System Revenue Bonds Series 1999	\$ 640,000	\$ -	\$ (30,000)	\$610,000	\$35,000
2.5% Drinking Water Revolving Fund, Series 1999	375,000	-	(25,000)	350,000	25,000
Subtotal – installment debt	1,015,000	-	(55,000)	960,000	60,000
Net Premium/Discount	(7,657)	-	547	(7,110)	-
Total business-type activities	<u>\$1,007,343</u>	<u>\$ -</u>	<u>\$ (55,547)</u>	<u>\$952,890</u>	<u>\$60,000</u>

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Component Unit – Tax Increment Finance Authority					
5.5% - 7.0% Downtown Development Series 1991	\$ 525,000	\$ -	\$ (75,000)	\$ 450,000	\$100,000
5.5% - 8.5% General Obligation Limited	1,130,000	-	(90,000)	1,040,000	85,000
Total Component Unit Debt	<u>\$1,655,000</u>	<u>\$ -</u>	<u>\$(165,000)</u>	<u>\$1,490,000</u>	<u>\$185,000</u>

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2006 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 365,812	\$ 207,289	\$ 60,000	\$ 38,115	\$ 185,000	\$ 92,648
2008	393,623	195,643	60,000	36,020	215,000	80,605
2009	416,545	182,828	65,000	33,890	225,000	66,590
2010	449,584	168,666	65,000	31,505	225,000	52,965
2011	477,744	152,980	70,000	29,080	160,000	39,840
2012-2016	1,985,000	478,545	375,000	102,980	480,000	59,360
2017-2019	785,000	39,884	265,000	22,845	-	-
	<u>\$4,873,308</u>	<u>\$1,425,835</u>	<u>\$960,000</u>	<u>\$294,435</u>	<u>\$1,490,000</u>	<u>\$392,008</u>

For the governmental activities, accrued employee benefits are generally liquidated by the general fund.

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

8. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate varies by employment group from 7.9 to 12.8 of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2006 the City's annual pension cost for MERS of \$124,668 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 78,417	100%	\$ -
2005	83,748	100%	-
2006	124,668	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/03	\$1,127,102	\$2,151,206	\$1,024,104	52%	\$498,021	206%
12/31/04	1,142,776	2,222,428	1,079,652	51%	424,432	254%
12/31/05	1,153,607	2,374,907	1,221,300	48%	439,759	277%

CITY OF HUDSONVILLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

9. DEFINED CONTRIBUTION PLAN

The City of Hudsonville Governmental Money Purchase Plan and trust is a defined contribution retirement plan administered by the Michigan Municipal Employees Retirement System. This Plan provides benefits at retirement to all new City employees and employees requesting conversion to the Plan during the appropriate conversion window. The City is required to contribute up to 13% of employee covered payroll depending on employee bargaining unit and employee contributions. Employees are required to contribute 2% of covered payroll with a 100% match of employee contributions paid by the City. Plan provisions and contribution requirements are established and may be amended by the City of Hudsonville City Commission. During the current year the City contributed \$107,442 while participants contributed \$19,049.

10. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

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CITY OF HUDSONVILLE

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2006

	Special Revenue					Debt Service	
	Major Street	Local Street	Library	Public Safety	Community Policing	1999 Bonds	1990 Major Street Bonds
Assets							
Cash and pooled investments	\$ 38,434	\$ 26,373	\$ 81,137	\$ 2,264	\$ 2,630	\$ 561	\$ 91
Restricted cash and pooled investments	-	-	18,569	-	-	-	-
Due from other governments	58,880	17,876	3,287	-	-	-	-
Accounts receivable	3,477	-	37,217	-	-	-	-
Special assessments receivable	-	-	-	-	-	-	-
Interest receivable	647	556	860	13	-	-	-
Total assets	<u>\$ 101,438</u>	<u>\$ 44,805</u>	<u>\$ 141,070</u>	<u>\$ 2,277</u>	<u>\$ 2,630</u>	<u>\$ 561</u>	<u>\$ 91</u>
Liabilities and fund balances							
Liabilities:							
Accounts payable	16,917	1,885	6,691	356	-	300	-
Accrued wages payable	2,476	2,393	5,157	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Total liabilities	<u>19,393</u>	<u>4,278</u>	<u>11,848</u>	<u>356</u>	<u>-</u>	<u>300</u>	<u>-</u>
Fund balances (deficit):							
Reserved	-	-	18,569	-	-	-	-
Unreserved - undesignated	82,045	40,527	110,653	1,921	2,630	261	91
Total fund balances (deficit)	<u>82,045</u>	<u>40,527</u>	<u>129,222</u>	<u>1,921</u>	<u>2,630</u>	<u>261</u>	<u>91</u>
Total liabilities and fund balances (deficit)	<u>\$ 101,438</u>	<u>\$ 44,805</u>	<u>\$ 141,070</u>	<u>\$ 2,277</u>	<u>\$ 2,630</u>	<u>\$ 561</u>	<u>\$ 91</u>

Debt Service						Capital Projects		
1999 Special Assessment Bonds	Library Construction	2001 Street Improvement	Lease Purchase	Hudsonville Building Authority		Highland Drive East	Water	Sidewalk
\$ 4,574	\$ 932	\$ 1,588	\$ 43,305	\$ 11,436		\$ 5,206	\$ 1,926	\$ 25,102
-	-	-	-	-		-	-	-
-	-	-	-	-		-	-	-
-	-	-	-	-		-	-	-
52,250	-	-	-	-		-	1,913	7,017
-	-	-	-	-		35	21	278
\$ 56,824	\$ 932	\$ 1,588	\$ 43,305	\$ 11,436		\$ 5,241	\$ 3,860	\$ 32,397
300	-	250	-	-		-	-	-
-	-	-	-	-		-	-	-
-	-	-	-	-		-	-	26,502
52,250	-	-	-	-		-	1,913	7,017
52,550	-	250	-	-		-	1,913	33,519
-	-	-	-	-		-	-	-
4,274	932	1,338	43,305	11,436		5,241	1,947	(1,122)
4,274	932	1,338	43,305	11,436		5,241	1,947	(1,122)
\$ 56,824	\$ 932	\$ 1,588	\$ 43,305	\$ 11,436		\$ 5,241	\$ 3,860	\$ 32,397

(Continued)

CITY OF HUDSONVILLE

Combining Balance Sheet (Continued)
Nonmajor Governmental Funds

June 30, 2006

	Capital Projects					Totals
	Facility Improvements Ada	New Holland Bike Path	New Holland Sanitary/ Sidewalk	Hillside Park Development	Library Expansion	
Assets						
Cash and pooled investments	\$ 973	\$ 4,164	\$ 11,623	\$ 7,607	\$ 66,197	\$ 336,123
Restricted cash and pooled investments	-	-	-	-	-	18,569
Due from other governments	-	-	-	-	-	80,043
Accounts receivable	-	-	-	-	-	40,694
Special assessments receivable	-	-	1,821	-	-	63,001
Interest receivable	8	45	128	82	712	3,385
Total assets	<u>\$ 981</u>	<u>\$ 4,209</u>	<u>\$ 13,572</u>	<u>\$ 7,689</u>	<u>\$ 66,909</u>	<u>\$ 541,815</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable	-	-	-	850	592	28,141
Accrued wages payable	-	-	-	-	-	10,026
Due to other funds	-	-	-	-	-	26,502
Deferred revenue	-	-	1,824	-	-	63,004
Total liabilities	<u>-</u>	<u>-</u>	<u>1,824</u>	<u>850</u>	<u>592</u>	<u>127,673</u>
Fund balances (deficit):						
Reserved	-	-	-	-	-	18,569
Unreserved - undesignated	981	4,209	11,748	6,839	66,317	395,573
Total fund balances (deficit)	<u>981</u>	<u>4,209</u>	<u>11,748</u>	<u>6,839</u>	<u>66,317</u>	<u>414,142</u>
Total liabilities and fund balances (deficit)	<u>\$ 981</u>	<u>\$ 4,209</u>	<u>\$ 13,572</u>	<u>\$ 7,689</u>	<u>\$ 66,909</u>	<u>\$ 541,815</u>

(Concluded)

CITY OF HUDSONVILLE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue					Debt Service	
	Major Street	Local Street	Library	Public Safety	Community Policing	1999 Bonds	1990 Major Street
Revenues							
Taxes	\$ -	\$ -	\$ 201,575	\$ -	\$ -	\$ -	\$ -
Special assessment revenue	-	-	-	-	-	-	-
Intergovernmental	356,593	108,537	10,494	48,203	-	-	-
Charges for services	-	-	62,444	-	-	-	-
Rentals	5,870	-	-	-	-	-	-
Interest	5,678	189	4,294	13	-	-	4
Miscellaneous	14,405	12,963	21,333	951	11,033	-	-
Total revenues	382,546	121,689	300,140	49,167	11,033	-	4
Expenditures							
Current:							
Highways and streets	232,402	239,904	-	-	-	-	-
Culture and recreation	-	-	284,299	1,257	-	-	-
Public safety	-	-	-	52,492	11,270	-	-
Debt service:							
Principal	-	-	-	-	-	15,000	-
Interest and fiscal charges	-	-	-	-	-	6,812	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	232,402	239,904	284,299	53,749	11,270	21,812	-
Revenues over (under) expenditures	150,144	(118,215)	15,841	(4,582)	(237)	(21,812)	4
Other financing sources (uses)							
Transfers in	49,380	83,880	-	-	-	21,531	-
Transfers (out)	(184,769)	(6,323)	(20,000)	-	-	-	-
Total other financing sources (uses)	(135,389)	77,557	(20,000)	-	-	21,531	-
Net changes in fund balances	14,755	(40,658)	(4,159)	(4,582)	(237)	(281)	4
Fund balances (deficit), beginning of year	67,290	81,185	133,381	6,503	2,867	542	87
Fund balances (deficit), end of year	\$ 82,045	\$ 40,527	\$ 129,222	\$ 1,921	\$ 2,630	\$ 261	\$ 91

Debt Service							
1999 Special Assessment Bonds	Library Construction Debt Service	2001 Street Improvement	Lease Purchase	Hudsonville Building Authority	Highland Drive East	Water	Sidewalk
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10,061	-	-	-	-	-	-	2,358
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
523	(12)	(22)	(535)	(144)	115	71	1,736
-	-	-	-	-	-	-	-
10,584	(12)	(22)	(535)	(144)	115	71	4,094
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
15,000	45,000	55,000	68,108	140,000	-	-	-
6,226	43,853	16,061	17,921	161,802	-	-	-
-	-	-	-	-	-	-	-
21,226	88,853	71,061	86,029	301,802	-	-	-
(10,642)	(88,865)	(71,083)	(86,564)	(301,946)	115	71	4,094
-	88,775	70,562	86,030	301,557	-	-	-
-	-	-	-	-	-	-	-
-	88,775	70,562	86,030	301,557	-	-	-
(10,642)	(90)	(521)	(534)	(389)	115	71	4,094
14,916	1,022	1,859	43,839	11,825	5,126	1,876	(5,216)
\$ 4,274	\$ 932	\$ 1,338	\$ 43,305	\$ 11,436	\$ 5,241	\$ 1,947	\$ (1,122)

(Continued)

CITY OF HUDSONVILLE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Capital Projects					Totals
	Facility Improvements Ada	New Holland Bike Path	New Holland Sanitary/ Sidewalk	Hillside Park Development	Library Expansion	
Revenues						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 147,588	\$ 349,163
Special assessment revenue	-	-	-	-	-	12,419
State and federal	-	-	-	-	-	523,827
Charges for services	-	-	-	-	-	62,444
Rentals	-	-	-	-	-	5,870
Interest	25	150	425	161	3,675	16,346
Miscellaneous	-	-	-	2,940	193	63,818
Total revenues	25	150	425	3,101	151,456	1,033,887
Expenditures						
Current:						
Highways and streets	-	-	-	-	-	472,306
Culture and recreation	-	-	-	-	-	285,556
Public safety	-	-	-	-	-	63,762
Debt service:						
Principal	-	-	-	-	-	338,108
Interest and fiscal charges	-	-	-	-	-	252,675
Capital outlay	-	-	-	18,313	592	18,905
Total expenditures	-	-	-	18,313	592	1,431,312
Revenues over (under) expenditures	25	150	425	(15,212)	150,864	(397,425)
Other financing sources (uses)						
Transfers in	-	-	-	15,000	-	716,715
Transfers (out)	-	-	-	-	(88,775)	(299,867)
Total other financing sources (uses)	-	-	-	15,000	(88,775)	416,848
Net changes in fund balances	25	150	425	(212)	62,089	19,423
Fund balances (deficit), beginning of year	956	4,059	11,323	7,051	4,228	394,719
Fund balances (deficit), end of year	\$ 981	\$ 4,209	\$ 11,748	\$ 6,839	\$ 66,317	\$ 414,142

(Concluded)

CITY OF HUDSONVILLE

Combining Statement of Net Assets Internal Service Funds

June 30, 2006

	Motor Pool	Compensated Absences	Fire Equipment Fund	Insurance	Total
Assets					
Current assets:					
Cash and pooled investments	\$ 713,290	\$ 30,022	\$ 4	\$ 25,764	\$ 769,080
Due from other funds	26,502	-	-	-	26,502
Interest receivable	7,851	-	-	273	8,124
Deposits	-	-	-	2,400	2,400
Total current assets	747,643	30,022	4	28,437	806,106
Noncurrent:					
Property and equipment	1,485,183	-	394,715	-	1,879,898
Less: accumulated depreciation	678,101	-	98,680	-	776,781
Total noncurrent	807,082	-	296,035	-	1,103,117
Total assets	1,554,725	30,022	296,039	28,437	1,909,223
Liabilities and fund equity					
Liabilities:					
Accounts payable	23,164	8,093	-	-	31,257
Accrued wages payable	1,038	-	-	-	1,038
Total current liabilities	24,202	8,093	-	-	32,295
Net assets					
Invested in capital assets	807,082	-	296,035	-	1,103,117
Unrestricted	723,441	21,929	4	28,437	773,811
Total net assets	\$ 1,530,523	\$ 21,929	\$ 296,039	\$ 28,437	\$ 1,876,928

CITY OF HUDSONVILLE

Combining Statement of Revenues, Expenses and Changes in Net Assets Internal Service Funds

For the Year Ended June 30, 2006

	Motor Pool	Compensated Absences	Fire Equipment Fund	Insurance	Total
Operating revenues					
Charges for services	\$ 220,715	\$ 748,122	\$ -	\$ -	\$ 968,837
Operating expenses					
Personnel services	44,305	483,208	-	-	527,513
Insurance	18,821	245,478	-	-	264,299
Supplies and materials	40,482	-	-	-	40,482
Repairs and maintenance	28,924	-	-	-	28,924
Depreciation	90,540	-	19,736	-	110,276
Miscellaneous	12,794	-	-	-	12,794
Total operating expenses	235,866	728,686	19,736	-	984,288
Operating income (loss)	(15,151)	19,436	(19,736)	-	(15,451)
Nonoperating revenues (expenses)					
Loss of sale of capital assets	(65,919)	-	-	-	(65,919)
Interest income	24,503	-	-	904	25,407
Total nonoperating revenues (expenses)	(41,416)	-	-	904	(40,512)
Changes in net assets	(56,567)	19,436	(19,736)	904	(55,963)
Net assets - beginning of year	1,587,090	2,493	315,775	27,533	1,932,891
Net assets - end of year	\$ 1,530,523	\$ 21,929	\$ 296,039	\$ 28,437	\$ 1,876,928

CITY OF HUDSONVILLE

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2006

	Motor Pool	Compensated Absences	Fire Equipment Fund	Insurance	Total
Cash flows from operating activities					
Receipts from interfund services	\$ 220,715	\$ 748,122	\$ -	\$ -	\$ 968,837
Payments to vendors	(116,667)	(237,164)	-	-	(353,831)
Payments to employees	(44,305)	(483,208)	-	-	(527,513)
Net cash provided by (used in) operating activities	59,743	27,750	-	-	87,493
Cash flows from capital and related financing activities					
Loss on sale of capital assets	(65,919)	-	-	-	(65,919)
Acquisitions of capital assets	(186,160)	-	-	-	(186,160)
Cash flows from investing activities					
Interest income	24,503	-	-	923	25,426
Net increase (decrease) in cash and pooled investments	(101,914)	27,750	-	923	(73,241)
Cash and pooled investments - beginning of year	815,204	2,272	4	24,841	842,321
Cash and pooled investments - end of year	\$ 713,290	\$ 30,022	\$ 4	\$ 25,764	\$ 769,080
Cash flows from operating activities					
Operating income (loss)	\$ (15,151)	\$ 19,436	\$ (19,736)	\$ -	\$ (15,451)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	90,540	-	19,736	-	110,276
Changes in operating assets and liabilities which provided (used) cash:					
Accounts payable	(15,558)	8,314	-	-	(7,244)
Accrued wages payable	(88)	-	-	-	(88)
Net cash provided by (used in) operating activities	\$ 59,743	\$ 27,750	\$ -	\$ -	\$ 87,493

CITY OF HUDSONVILLE

Combining Statement of Assets and Liabilities Agency Funds

June 30, 2006

<u>ASSETS</u>	<u>Trust And</u> <u>Agency</u>	<u>Payroll</u>	<u>Totals</u>
Cash and pooled investments	\$ 175,474	\$ 2,834	\$ 178,308
<u>LIABILITIES</u>			
Accounts payable	\$ 175,474	\$ 2,834	\$ 178,308

CITY OF HUDSONVILLE

Combining Statement of Changes in Assets and Liabilities All Agency Funds

For the Year Ended June 30, 2006

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
<u>Trust and agency fund</u>				
Assets				
Cash and pooled investments	\$ 119,943	\$ 9,294,726	\$ 9,239,195	\$ 175,474
Liabilities				
Accounts payable	\$ 119,943	\$ 9,294,726	\$ 9,239,195	\$ 175,474
<u>Payroll fund</u>				
Assets				
Cash and pooled investments	\$ 1,083	\$ 1,559,641	\$ 1,557,890	\$ 2,834
Liabilities				
Accounts payable	\$ 1,083	\$ 1,559,641	\$ 1,557,890	\$ 2,834
<u>Totals - all agency funds</u>				
Assets				
Cash and pooled investments	\$ 121,026	\$ 10,854,367	\$ 10,797,085	\$ 178,308
Liabilities				
Accounts payable	\$ 121,026	\$ 10,854,367	\$ 10,797,085	\$ 178,308

CITY OF HUDSONVILLE

Balance Sheet/Statement of Net Assets Tax Increment Finance Authority

June 30, 2006

	General Operating Fund	Adjustments	Statement of Net Assets
Assets			
Cash and pooled investments	\$ 1,093,509	\$ -	\$ 1,093,509
Accrued interest receivable	11,491	-	11,491
Total assets	<u>\$ 1,105,000</u>	-	1,105,000
Liabilities and fund balance/net assets			
Liabilities:			
Accounts payable	\$ 185,811	-	185,811
Accrued interest	-	16,124	16,124
Bonds payable	-	1,490,000	1,490,000
	<u>185,811</u>	1,506,124	1,691,935
Fund balance:			
Undesignated	<u>919,189</u>	(919,189)	-
Total liabilities and fund balance	<u>\$ 1,105,000</u>		
Net assets (deficit):			
Unrestricted		<u>\$ (586,935)</u>	<u>\$ (586,935)</u>

CITY OF HUDSONVILLE

Statement of Activities/Revenues, Expenditures and Changes in Fund Balance/Net Assets Tax Increment Finance Authority

For the Year Ended June 30, 2006

	General Operating Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 485,457	\$ -	\$ 485,457
Interest	47,690	-	47,690
Total revenues	533,147	-	533,147
Expenditures/expenses			
Debt service:			
Principal	165,000	(165,000)	-
Interest	103,103	(4,110)	98,993
Miscellaneous	55,916	0	55,916
Total expenditures/expenses	324,019	(169,110)	154,909
Revenues over (under) expenditures	209,128	(209,128)	-
Change in net assets	-	378,238	378,238
Fund balance/net assets (deficit), beginning of year	710,061		(965,173)
Fund balance/net assets (deficit), end of year	<u>\$ 919,189</u>		<u>\$ (586,935)</u>

CITY OF HUDSONVILLE

Balance Sheet/Statement of Net Assets Local Development Finance Authority

June 30, 2006

	General Operating Fund	Adjustments	Statement of Net Assets
Assets			
Cash and pooled investments	\$ 121,898	\$ -	\$ 121,898
Accrued interest receivable	1,262	-	1,262
Total assets	<u>\$ 123,160</u>	-	<u>123,160</u>
Liabilities and fund balance/net assets			
Liabilities:			
Accounts payable	\$ 37,913	\$ -	\$ 37,913
Accrued interest	-	2,346	2,346
	<u>37,913</u>	<u>2,346</u>	<u>40,259</u>
Fund balance:			
Undesignated	<u>85,247</u>	<u>(85,247)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 123,160</u>		
Net assets:			
Unrestricted		<u>\$ 82,901</u>	<u>\$ 82,901</u>

CITY OF HUDSONVILLE

Statement of Activities/Revenues, Expenditures and Changes in Fund Balance/Net Assets Local Development Finance Authority

For the Year Ended June 30, 2006

	General Operating Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 191,093	\$ -	\$ 191,093
Interest	4,158	-	4,158
Total revenues	195,251	-	195,251
Expenditures/expenses			
Debt service:			
Interest	3,056	24	3,080
Revenues over (under) expenditures	192,195	(192,195)	-
Change in net assets	-	192,171	192,171
Fund balance/net assets (deficit) , beginning of year	(106,948)		(109,270)
Fund balance/net assets, end of year	<u>\$ 85,247</u>		<u>\$ 82,901</u>

CITY OF HUDSONVILLE

Balance Sheet/Statement of Net Assets Downtown Development Authority

June 30, 2006

	General Operating Fund	Adjustments	Statement of Net Assets
<hr/>			
Assets			
Cash and pooled investments	\$ 31,980	\$ -	\$ 31,980
Accrued interest receivable	309	-	309
	<hr/>		
Total assets	<u>\$ 32,289</u>	-	32,289
	<hr/>		
Liabilities and fund balance/net assets			
Liabilities:			
Accounts payable	\$ 577	-	577
	<hr/>		
Fund balance:			
Undesignated	31,712	(31,712)	-
	<hr/>		
Total liabilities and fund balance	<u>\$ 32,289</u>		
	<hr/>		
Net assets:			
Unrestricted		<u>\$ 31,712</u>	<u>\$ 31,712</u>

CITY OF HUDSONVILLE

Statement of Activities/Revenues, Expenditures and Changes in Fund Balance/Net Assets Downtown Development Authority

For the Year Ended June 30, 2006

	General Operating Fund	Adjustments	Statement of Activities
Revenues			
Taxes	\$ 9,987	\$ -	\$ 9,987
Interest	1,119	-	1,119
Miscellaneous	2,676	-	2,676
Total revenues	13,782	-	13,782
Expenditures/expenses			
Capital outlay	2,950	-	2,950
Miscellaneous	935	-	935
Total expenditures/expenses	3,885	-	3,885
Revenues over (under) expenditures	9,897	(9,897)	-
Change in net assets	-	9,897	9,897
Fund balance/net assets, beginning of year	21,815		21,815
Fund balance/net assets, end of year	<u>\$ 31,712</u>		<u>\$ 31,712</u>

CITY OF HUDSONVILLE

Schedule of Indebtedness

June 30, 2006

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Principal Payment	
					Date	Amount
Governmental Activities Bond:						
Hudsonville Building Improvement and Refunding Bonds	4.1 - 5.35 %	4/1,10/1	1997	2018	10/01/2006	\$ 210,000
					10/01/2007	230,000
					10/01/2008	250,000
					10/01/2009	275,000
					10/01/2010	300,000
					10/01/2011	325,000
					10/01/2012	350,000
					10/01/2013	385,000
					10/01/2014	420,000
					10/01/2015	425,000
					10/01/2016	430,000
					10/01/2017	355,000
						3,955,000
1999 GO Public Improvement	3.95 - 5%	4/1,10/1	1999	2014	04/01/2007	15,000
					04/01/2008	15,000
					04/01/2009	15,000
					04/01/2010	15,000
					04/01/2011	15,000
					04/01/2012	15,000
					04/01/2013	15,000
					04/01/2014	20,000
	125,000					
1999 Special Assessment	4.75 - 5%	4/1,10/1	1999	2014	04/01/2007	15,000
					04/01/2008	15,000
					04/01/2009	15,000
					04/01/2010	15,000
					04/01/2011	15,000
					04/01/2012	10,000
					04/01/2013	10,000
					04/01/2014	10,000
	105,000					
2001 MI Transportation Fund	4.25 - 7.25%	5/1,11/1	2001	2011	05/01/2007	55,000
					05/01/2008	60,000
					05/01/2009	60,000
					05/01/2010	65,000
					05/01/2011	65,000
	305,000					

(Continued)

CITY OF HUDSONVILLE

Schedule of Indebtedness

June 30, 2006

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Principal Payment	
					Date	Amount
2001 Installment Purchase Contract	3.97%	4/1, 10/1	2001	2011	04/01/2007	\$ 70,812
					04/01/2008	73,623
					04/01/2009	76,545
					04/01/2010	79,584
					04/01/2011	82,744
						<u>383,308</u>
TOTAL GOVERNMENTAL ACTIVITIES						<u>\$ 4,873,308</u>
BUSINESS-TYPE ACTIVITIES						
1999 Series	4 - 5.2%	4/1,10/1	1999	2019	04/01/2007	\$ 35,000
					04/01/2008	35,000
					04/01/2009	40,000
					04/01/2010	40,000
					04/01/2011	45,000
					04/01/2012	45,000
					04/01/2013	50,000
					04/01/2014	45,000
					04/01/2015	50,000
					04/01/2016	50,000
					04/01/2017	55,000
					04/01/2018	60,000
					04/01/2019	60,000
						<u>610,000</u>
1998 Drinking Water Revolving Fund	2.5%	4/1,10/1	1998	2019	04/01/2007	25,000
					04/01/2008	25,000
					04/01/2009	25,000
					04/01/2010	25,000
					04/01/2011	25,000
					04/01/2012	25,000
					04/01/2013	25,000
					04/01/2014	25,000
					04/01/2015	30,000
					04/01/2016	30,000
					04/01/2017	30,000
					04/01/2018	30,000
					04/01/2019	30,000
						<u>350,000</u>
Net premium/discount						(7,110)
TOTAL BUSINESS-TYPE ACTIVITIES						<u>\$ 952,890</u>

CITY OF HUDSONVILLE

Schedule of Indebtedness

June 30, 2006

	Interest	Interest	Issue Date	Final	Principal Payment	
	Rates	Dates		Maturity	Date	Amount
COMPONENT UNIT TIFA						
1991 Downtown Development Bonds	5.5 - 7%	12/1, 6/1	1991	2010	06/01/2007	\$ 100,000
					06/01/2008	100,000
					06/01/2009	125,000
					06/01/2010	125,000
					450,000	
General Obligation Limited Tax Development Bonds						
1994 Series	5.5 - 8.5%	4/1,10/1	1994	2014	04/01/2007	85,000
					04/01/2008	115,000
					04/01/2009	100,000
					04/01/2010	100,000
					04/01/2011	160,000
					04/01/2012	160,000
					04/01/2013	160,000
					04/01/2014	160,000
		1,040,000				
TOTAL COMPONENT UNIT DEBT						\$ 1,490,000



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 8, 2006

Honorable Mayor and
Members of the City Commission
Hudsonville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudsonville, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hudsonville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudsonville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Commission, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.